



# Capital Equipment Working Group

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# Team Members

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# Overview

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- November presentation
- Approach
- Charter
- Issues, current practices
- Desired future state & potential recommendations
- Next steps



# Approach

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- Organize a working group
- Develop a charter
  - Identify issues & descope to the critical few
  - Discuss current practices and identify best practices
  - Formulate a desired future state
- Develop a timeline
- Identify barriers
- Develop recommendations



# The Original Concern

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How to obtain adequate funding for capital equipment and infrastructure needs at Sandia to ensure Sandia is equipped to perform its mission for the Nation

The problem is magnified in the non-Nuclear Weapon areas (especially work for others), areas that are not aligned with a specific program (multiple customers) and growth areas.



# The Charter

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The Financial Planning and Accounting for Capital Equipment working group has been formed to develop recommendations surrounding capital equipment issues in the Complex



# The Charter - Continued

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- Identify barriers/issues surrounding the acquisition of capital assets
- Identify and share current and best practices
- Identify desired future state
- Propose recommendations



# The Charter - Continued

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- The proposed recommendations will:
  - Improve current practices
  - Meet the spirit and intent of financial / accounting polices and regulations
  - Allow for flexibility



# Issues

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Difficulty obtaining funds for necessary capital equipment to ensure the Complex meets its mission

- Recap rates are at 2-3%
- Studies show that 4-5% would be adequate for non growth areas and 7-10% for growth areas
- Approximately 40% of capital equipment past service life
- Imposed limitations (e.g. unable to increase total indirect to assess for IGPE)



# Issues

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Need purposeful system to assess the condition of existing equipment and mission consequence of equipment failure

- Required to report deferred maintenance on personal property, minimal guidance issued, minimal usefulness
- Adequate guidance on real property for reporting via FIMS, has resulted in FIRP funding



# Issues

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Because of inflation, sites are capitalizing items that were previously considered operating

- Current threshold is \$25K

Requirements for capital equipment over \$5M (DOE O 413.3)

- FY2006 budget submission guidance



# Issues

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Specific issues related to non-direct funded (no sponsor) capital equipment (institutional, multiple sponsors, service center)

- Because equipment is expensed in the year it is purchased, a large piece of equipment can create a burden on the current customer
- Contractors are prevented from spreading costs over multiple years or from recovering funding for a future year purchase
- Replacement of capital is not always known two years in advance for budget cycle



# Current Practices

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## Multi-use capital equipment

- If program specific, obtain funding directly from the sponsor; split funding if multiple sponsors
- Service Centers can recover based on usage in the same year, smaller purchases for minimal impact to rate
- If Institutional, use IGPE tax or obtain GPE from landlord
- Acquire replacements through excess sales where possible



# Current Practices

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## Work for others (non-DOE) capital equipment

- Obtain funding from customer; keep equipment or return per contract
- Typically, the capital cost of the equipment is not recouped through a usage rate
- DHS equipment is being treated like other WFO customers



# Desired Future State

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- Maintain the ability to have multiple funding options
- Flexibility in determining appropriate funding levels and rates for institutional equipment
- Recognize importance of capital equipment in order to meet DOE mission



# Preliminary Recommendations

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- Expand usefulness of deferred maintenance and include consistent guidance for a Condition Assessment Survey – if benefits are received, such as additional funding similar to FIRP
  - Metrics to assess mission consequence and condition (e.g. probability of failure)
- Recommendation made on February 24<sup>th</sup>, 2004 to increase capitalization threshold to \$50K; \$100K not supported
- Working capital fund - flexibility to recover and carry over money for capital equipment replacement
- Tax WFO for capital equipment needs
- Do not require compliance with DOE Order 413.3 for stand alone capital equipment purchases



# Next Steps

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- Conduct additional research / Review existing literature
  - GAO report on “Alternative approaches to finance Federal Capital”
  - NRC report on “Facilities Management and Infrastructure Renewal”
- Solicit additional participation
- Develop questionnaire for sites to help identify issues
- Identify barriers
- Refine and finalize recommendations